Testimony of

Greta J. Harris
Senior Program Director
Richmond Local Initiatives Support Corporation

Enhancing Community Development

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Good afternoon, Madame Chairwoman and members of the Subcommittee. I am pleased to testify today on Enhancing Community Development.

I direct LISC's Richmond, VA program, one of 38 nationwide plus a national rural program. Richmond is not part of the Living Cities/National Community Development Initiative, but we do use Section 4 funds to provide Capacity Building for Affordable Housing and Community Development. I have been in the business of rebuilding communities for over 20 years, mostly at the neighborhood level. I started my career as an architect, moving on to work for a local grassroots community development corporation, or CDC, in Philadelphia and then to lead Neighborhood Housing Services of Richmond (a local CDC), before coming to LISC five years ago.

We welcome the Subcommittee's focus on building the capacity of CDCs. In our experience, capacity building is a necessary and highly productive investment in revitalizing our nation's most distressed urban and rural communities.

LISC helps neighbors build whole communities. Established in 1980, LISC has worked in over 300 urban and rural areas, investing $4.5 billion of mostly private funds in the work of over 2,200 CDCs. CDCs have used our funds to raise an additional $6.7 billion over the past 22 years. With this support, CDCs have built 121,000 high-quality, affordable homes, helped make neighborhoods safer and more livable, and created 18 million square feet of commercial, retail, child care, educational and youth development facilities, bringing markets and jobs back to inner city and rural America.

Our first name is Local. Each of our 38 local offices forges close working relationships with CDCs, private lenders and investors, foundations, and city and state governments – the entire network of partners necessary to rebuild low-income communities. An advisory committee of business, civic, and community leaders directs each local office, as well as a national rural assistance program. LISC's national Board of Directors, chaired by former Treasury Secretary Robert Rubin, provides stewardship. This structure ensures that we make sound investments that yield tangible results for communities and other stakeholders. A list of LISC offices is attached.

We work with CDCs for a very practical reason: they have been uniquely effective in reviving many of the toughest neighborhoods and rural areas in this country. The National Congress for Community Economic Development reports that some 3,600 CDCs have developed 550,000 affordable homes and 71 million feet of commercial facilities, financed almost 60,000 businesses, and helped to create almost 250,000 jobs.[1]

Strengthening the organizational capacity of CDCs is both important and deserving of more federal support. It takes strong organizations to achieve and sustain such results in communities others have written off as hopeless. Each aspect of community development – housing, economic development, workforce development, child care, to name but a few – requires its own capacities and relationships. The projects and programs CDCs undertake cannot generate the revenue they need to grow.

And CDCs are much more than developers. They function as broad-based community institutions, constantly keeping in touch with residents and other stakeholders, identifying and planning future activities, supplying the glue that holds together very distressed and fragile communities under great stress, and representing the community with a wide range of public and private sector partners. None of these broader activities generates revenue.

Federal support for building CDC capacity is a necessary and highly efficient investment in this classically American form of community entrepreneurship. We applaud Reps. Stephanie Tubbs-Jones and J.C. Watts for recognizing the value of CDCs through H.R. 3974, the Community Economic Development Expertise Enhancement Act of 2002.

Section 4 Capacity Building Funds Are Productive

The Section 4 Capacity Building for Community Development and Affordable Housing program provides training and seed capital that CDCs use to assemble development projects and other community revitalization activities.

The Section 4 Capacity Building program was first enacted in 1993 to enable HUD to join private corporations and foundations in an unprecedented partnership, the National Community Development Initiative (NCDI) – now called Living Cities.[2] NCDI had begun in 1991, and HUD used Section 4 funds to join

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[1] *Coming of Age.* Washington, DC: National Congress for Community Economic Development and Urban Institute, 1999.
[2] The current private partners are: Bank of America, Annie E. Casey Foundation, Deutsche Bank, The Equitable Life Assurance Society of the United States, The Robert Wood Johnson

as a partner in 1994. LISC and the Enterprise Foundation administer NCDI/Living Cities funds in 23 cities.[3] Starting in 1997, Section 4 was amended to allow LISC and Enterprise to assist CDCs nationwide.[4]

Section 4 has been extremely productive. To date, LISC has received $60 million through Section 4, both within and beyond the NCDI/Living Cities locations. We are using these funds to:

- Attract $200 million in private matching funds, an amount we expect to reach perhaps $280 million.
- Directly assist 406 CDCs throughout LISC's nationwide system. A list of these CDCs is attached. This number does not include many other CDCs that have received training and other non-cash support.
- Help CDCs to develop approximately:
    - 22,000 affordable homes with a total cost of $2.7 billion.
    - 74 economic development facilities, including retail, industrial, office, child care, health care, and educational facilities, involving 2.6 million square feet of space and $700 million in development activity.

  This total development activity of $3.4 billion is 58 times the Section 4 funding we have received, a remarkably productive use of federal funds.

These outputs are only partial indicators of Section 4's impact. They exclude the impact of cash awards not directly connected to specific development activities, and of non-cash assistance, such as training and direct technical advice. They also do not capture other important aspects of building CDC capacity, such as:

- Stronger internal management systems, including financial management, technology, and personnel systems;

Foundation, W.K. Kellogg Foundation, John S. and James L. Knight Foundation, John D. and Catherine T. MacArthur Foundation, The McKnight Foundation, Metropolitan Life Insurance Company, J.P. Morgan Chase & Company, The Prudential Insurance Company of America, The Rockefeller Foundation, and Surdna Foundation. In addition to HUD, the U.S. Department of Health and Human Services has recently joined as a federal partner.

[3] LISC administers NCDI funds in Boston, Chicago, Detroit, Indianapolis, Kansas City (MO), Los Angeles, Greater Miami, Newark, New York, Philadelphia, Phoenix, San Francisco Bay Area, Seattle, St. Paul, and Washington (DC).

[4] The 1997 amendment also added Habitat for Humanity International and Youthbuild USA as eligible recipients.

- Stronger community boards of directors, better able to direct and oversee CDCs;

- More strategic community planning, so that each activity is most responsive to community stakeholders, generates the greatest revitalization impact possible and creates new opportunities; and

- Broader engagement by private sector and public sector partners, so that these institutions can serve distressed communities better.

- More timely and effective use of other HUD and federal resources, including HOME, CDBG, and Low Income Housing Tax Credits.

In Richmond, for example, Section 4 funds have helped the Oregon Hill Home Improvement Corporation (OHHIC) to produce the first new housing in the neighborhood in over a century. Funds were combined with intense technical assistance and training to support a second staff person, who focused on building organizational systems, customer counseling and community relations, freeing up the organization's director to focus on acquisition and construction. The group currently has 14 houses in its pipeline, and a waiting list of pre-qualified lower-income homebuyers ready to purchase them. Section 4 funds assist OHHIC to continue to provide affordable housing to long-time low-income residents of this quickly gentrifying community.

Independent evaluations have confirmed the productiveness of Section 4 resources.

An Urban Institute evaluation[5] of the NCDI concluded that:

> "CDCs in NCDI cities have made substantial gains since 1991, nearly doubling the number of 'capable' groups, increasing operating budgets by 63% and expanding the number of top-tier groups by 45%."
>
> "The role of intermediaries in community development should be sustained and strengthened."
>
> "CDC supporters - including the federal government - must keep capital flowing to CDC projects."

A separate independent evaluation of how LISC and Enterprise have used Section 4 outside the NCDI/Living Cities network, by Weinheimer Associates for HUD, concluded:

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[5] Christopher Walker and Mark Weinheimer, *Community Development in the 1990s*, Urban Institute (Washington, DC), 1998.

"The Section 4 program met and exceeded the goal established by Congress to develop the capacity of community development corporations to undertake community development and affordable housing projects and programs. The intermediaries provided assistance to 264 nonprofit community development organizations; 175 with grant funding and the rest with technical assistance. Grant funds alone reached 141 locations across the country; adding the non-cash-assisted groups pushes that number closer to 200 locations. Of the 264 groups assisted, about 63 percent are in or serve rural communities. . . .

"The Section 4 program was effective for many reasons. Chief among them:

- "HUD used two strong national organizations with a great deal of specialized knowledge in community development to deliver the capacity building assistance. Both Enterprise and LISC brought new tools and techniques to local situations and neighborhoods that usually were not previously present.

- "Section 4 itself created a pool of money dedicated to building capacity of nonprofit organizations. That set aside of money signaled that the task of capacity building is important and merits its own funding. It is not just a by-product of other activities. This suggested to other leaders that capacity building is worthwhile and important.

- "The section 4 money is flexible. This allowed both Enterprise and LISC to meet local needs and opportunities in a variety of locations. They were not restricted to one national model of capacity building.

- "In most cities, the intermediaries built local systems of support for the CDCs. That is, they enlisted local funders and supporters who leveraged their own resources, and they helped to create more streamlined funding streams for the CDCs."[6]

How LISC Works with CDCs

LISC's use of Section 4 funds reflects 22 years of experience providing over $4 billion in investments, loans, and grants to CDCs across the country. Our

[6] Weinheimer & Associates, "HUD Section 4 – Building the Capacity of Community Development Corporations; Assessment Report for FY 1997 Funds," Washington, DC, June 2001.

capacity building activities and project financing are closely linked and mutually reinforcing.

We are continually refining the way we support CDCs, but our overall approach works well. We have experienced losses of less than 2 percent of the $500 million we have loaned over 22 years of history. We believe our positive track record has contributed to the widespread recognition of the vast majority of CDCs as vital, productive, business-like and results-oriented community institutions. For these reasons, we have seen vigorous growth in the number of groups, their base of support, and the scope and volume of their achievements.

Local Knowledge. As our name suggests, our local presence helps make us effective in supporting CDCs and facilitates accountability. We operate through 38 local offices with staff on the ground, who constantly interact with CDCs, their boards, their constituents and with other key partners and stakeholders, such as public agencies, banks, and foundations. This intimate local knowledge informs the underwriting and monitoring of all of our financial commitments and the fashioning of programs responsive to specific local constraints and opportunities. Moreover, Local Advisory Committees oversee our local programs, and approve each and every funding award we make to CDCs. Comprised of corporate and philanthropic funders, and often, public agencies, experts and CDCs, LISC's Local Advisory Committees bring essential rigor and perspective to our decision-making processes.

CDC criteria. The criteria LISC uses for working with CDCs are not absolute, but rather are geared to each CDC's experience and agenda. In summary, we are looking for:

- A vision for the community that will galvanize both residents and outsiders and motivate their continued participation and support.

- A community revitalization strategy that reflects community concerns, opportunities and needs, and lays out the concrete steps the CDC will take to address them.

- Technical and managerial skills and staffing to carry out the program.

- A solid track record in managing and executing projects, including procedures to monitor progress and identify any needed changes in strategy or manner of implementation.

- Board leadership and oversight providing for accountability to the community, to funders, and to the organization's mission and goals.

- Management systems – e.g., financial, personnel, and information – to support successful program operations, reporting and analysis.

- Sound financial condition, including a diversified funding base and strategy for resource development.

Working daily with CDCs and other local partners informs our judgments. Typically, our relationship with a group starts with a project. We get to know the organization through meetings with staff and board, review of organizational documents and past accomplishments, consideration of reputation and references from others, as well as the CDC's expressed needs and preferences. We actively engage with a CDC when we feel that its approach is fundamentally sound and we see both the potential for and a commitment to further growth and improvement.

As we begin to work with the group on the project, we become acquainted with its skills in conceptualizing, planning, and managing project development and packaging financing, usually providing suggestions and advice along the way. If we decide to propose a loan, our underwriting criteria and process (described below) require that we clearly identify risks and risk mitigation strategies. Our appraisal of the circumstances will dictate not only whether we will propose a loan and the terms of that loan, but also what other support, if any, we should provide. Such other support might take the form of one-on-one technical assistance, by our staff or by a consultant, training to help strengthen technical capacities, or a grant, for example, to retain a project manager.

Our net loan loss rate of less than 2 percent over 22 years and $500 million in credit extended thus reflects not only effective underwriting and monitoring processes, but also our ability to assess what other resources or supports beyond the loan itself a CDC will require to successfully develop the project and repay our loan. Our purpose is not just to get the project done, but also to help CDCs become stronger and more durable community institutions.

Formal Operating Support Programs. This assessment process becomes more explicit in the context of formal organizational development programs, which have flourished over the past decade with the help of Section 4. These programs share several common features, including: (1) a collaborative funding approach where multiple funders come together to provide organizational development resources on a multi-year basis within an integrated program framework; (2) a competitive process for selecting CDCs; (3) the use of formal organizational assessments to identify areas where CDCs' practices can be strengthened; and (4) an outcomes-based funding approach where subsequent year funding depends upon the achievement of organizational and programmatic milestones set as a part of the assessment process.

According to a recent evaluation prepared for NCDI:

> "The creation of new capacity-building systems using intermediaries in key roles radically improved the [former ad hoc] situation. The new systems enabled funders to collaborate on operating support. The systems demanded organizational improvements by CDCs in return for operating support and helped groups diagnose areas in need of improvement. They provided access to technical aid and monitored whether or not performance benchmarks were met. The net result was to give funders much more assurance that their money would be well-spent."[7]

New Approaches to Performance Measurement. We are continuing to refine our organizational development programming and standards for accountability through the design, testing and launch of "CapMap" (short for capacity mapping), a new diagnostic and measurement tool. Crafted through a joint venture of LISC's Organizational Development Initiative and the local operating support collaboratives LISC administers, CapMap is a vehicle for documenting CDCs' organizational and real estate development capacities along a continuum defined by practical indicators (e.g., in financial management, ranging from regular reconciliation of bank accounts to the analysis of historic data for use in planning and decision making). The hierarchy of skills within key organizational areas (e.g., leadership, oversight, resource development, asset management, etc.) allows CDCs and LISC/Collaborative staff to identify the areas where capacities need to be built or strengthened, specify what achieving the next level of performance will entail, and document the progression of CDCs' practices over time. In addition, CapMap is constructed in a manner that permits the aggregation and analysis of information across groups and cities to not only document the results of organizational development interventions, but to also tailor future interventions in light of the needs of individual CDCs and those of the broader local industry.

As the foregoing suggests, our objective is to help CDCs become more effective. Occasionally, however, a CDC is simply not receptive to our approach. If necessary, we withhold or terminate support. We have made it clear to all concerned that LISC support is not an entitlement and that failure to perform has real consequences.

Rigorous Structuring and Monitoring of Awards. A rigorous underwriting process requires our field staff to justify proposed awards based on a thorough analysis of the organization (its track record, leadership, management, financial position, and credibility), the proposed project (market, cost, feasibility, and strategic importance), commitments and capacities of other essential players (the development team, property manager, and public and private financing sources).

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[7] The Urban Institute, *Community Development Corporations and their Changing Support Systems*, Draft Report, March 2002, page 41.

Proposals must include structures and supports to mitigate risks surfaced through the analysis.

As noted earlier, our Local Advisory Committees must approve every proposed funding action. Additional levels of review are required as the funding amount increases and may involve, in succession, the local Program Director, the supervising Vice President, our Senior Underwriter, LISC's internal Credit Committee (comprised of the Senior Underwriter and Loan Administrator, all Vice Presidents, Deputy General Counsel and the Chief Operating Officer), the Program Review and Evaluation Committee of LISC's Board of Directors, and the full LISC Board. Most loan and large grant proposals therefore are subject to multiple critiques from multiple perspectives and may be revised in response to comments or, on occasion, may be tabled.

As is the case with the origination of program activity, our local presence and staffing are the backbone of our monitoring efforts. By staying on top of the circumstances of the groups and projects they support, LISC field staff are aware of whether the funds awarded are being used for the intended purposes and can provide timely assistance in cases when efforts appear to be faltering.

This local system for problem solving complements more formal monitoring activities, including periodic reporting on any changes in repayment prospects for every outstanding loan and review by our internal Credit Risk Rating Committee. This committee, which includes the Senior Underwriter, Loan Administrator and Deputy General Counsel, may revise a loan's credit rating upward or downward, thus adjusting reserve amounts in light of current circumstances. Loans deemed to require more intensive and frequent attention, either by virtue of perceived inherent risks or actual repayment performance, are monitored monthly by local staff and our Credit Watch Committee, which together are responsible for crafting and pursuing solutions to problem loans.

In addition to these procedures, we make periodic site visits to CDCs receiving federal funds through LISC to ensure that expenses are allowable under Federal regulations, are within the grant budget, and are supported by appropriate documentation. Completing the circle of formal oversight, the LISC Board has set ceilings for delinquent and "Credit Watch" loans, and reviews actual performance relative to the ceilings on a quarterly basis.

Local Systems Improvements. How key resources are provided – public land use approvals and building permits, subsidy awards and private sector financing – also influences CDCs' productivity and accountability. In some locales, public sector approvals and resources as well as private sector financing can be accessed by CDCs in a reasonably predictable manner, whereas in other places, CDCs must spend considerable time working through and resolving land use, financing and regulatory issues on a project-by-project basis. In light of these circumstances, fostering improvements in local production systems – by bringing the public and private sectors together to reconcile divergent standards, assemble necessary resources in a coordinated fashion, facilitate regulatory reforms, and promote more consistent and transparent procedures for approvals and awards – have been central to our efforts to enhance the productivity, impact and accountability of CDCs. The absence of consistent and predictable systems for developing projects often is costly as projects are delayed, bids lapse and transactions become more complex and ultimately more expensive to effect. These costs and the associated delays are especially burdensome for CDCs – they consume scarce management resources and often diminish the support and faith of constituents who are eager for tangible change. In addition, the uncertainties frustrate the establishment of a culture of mutual accountability among the parties.

Conclusion

Our experience with Section 4 has been extremely positive. HUD, Living Cities/NCDI, and our other funders have been rigorous and responsive partners. The CDCs have performed professionally and effectively, with an apparently inexhaustible supply of vision, creativity, and tenacity. I invite you to come to Richmond or any of the other communities where LISC works. I am confident you will agree that the benefits for communities speak for themselves.